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Message Text

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ACTION EA-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-05 CEA-01 FEA-01 L-03 PRS-01 /099 W
----------006687 170538Z /12/14
P R 160813Z SEP 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 1157
INFO USMISSION GENEVA
AMEMBASSY BANGKOK

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 14287

C O R R E C T E D C O P Y (BANGKOK ADDED AS INFO ADDEE)

DEPT PLEASE PASS ALL OECD CAPITALS

GENEVA ALSO FOR MTN

BANGKOK FOR HEGINBOTHAM

E.O. 11652: GDS
TAGS: ETRD, JA
SUBJECT: U.S.-JAPAN SUBCABINET TALKS

1. SUMMARY: U.S.-JAPAN SUBCABINET TALKS WERE FRIENDLY, CONSTRUCTIVE AND FRANK. BOTH SIDES AGREED A) THAT OPEC SURPLUS LIKELY TO PERSIST FOR SOME YEARS AND ADJUSTMENT TO IT IS MAJOR IMPEDIMENT TO WORLD RECOVERY THAT REQUIRES INDUSTRIAL RESTRUCTURING EFFORTS, AND B) THAT IN FACE OF SLUGGISH WORLD DEMAND, PROTECTIONISM POSES GRAVE DANGER TO LIBERAL TRADE SYSTEM. WE WELCOMED JAPAN'S EFFORTS TO STIMULATE DOMESTIC DEMAND AND PRESSED JAPANESE TO OPEN MARKET TO IMPORTS IN ORDER TO BRING CURRENT ACCOUNT INTO DEFICIT AT AN EARLY DATE, THEREBY SHOULDERING GREATER SHARE OF BURDEN OF DEFICIT WITH OPEC.
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THE JAPANESE IDENTIFIED U.S. ENERGY POLICY AS ALSO NEEDING IMPROVEMENT AND FORECAST THAT RECENTLY ANNOUNCED STIMULATIVE MEASURES WOULD REVERSE CURRENT ACCOUNT TREND, HOLDING SURPLUS TO DOLS 6.5 BILLION FOR ALL OF JFY 1977. WE WELCOMED NEW MEASURES BUT REMAINED SKEPTICAL THAT THEY WOULD DO THE JOB ESPECIALLY ON CURRENT ACCOUNT. JAPANESE AGREED TO OUR PROPOSALS TO SET UP AN INFORMAL, TECHNICAL-LEVEL JOINT

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FORECASTING GROUP AND A JOINT STEERING COMMITTEE TO
IDENTIFY OBSTACLES TO AND MEANS BY WHICH U.S. EXPORTS
TO JAPAN WOULD BE EXPANDED. VIEWS ON NORTH-SOUTH
ISSUES AND AID PROGRAMS WERE ESSENTIALLY SIMILAR.
END SUMMARY.

2. ALTHOUGH BILATERAL ISSUES WERE NOT IGNORED, THE
EMPHASIS AT THE U.S.-JAPAN SUBCABINET TALKS SEPTEMBER
12-13 WAS ON THE MACRO-ECONOMIC RESPONSIBILITIES OF
THE WORLD'S TWO LARGEST MARKET-ORIENTED ECONOMIES.
THE JAPANESE WERE IN FULL ACCORD WITH UNDERSECRETARY
COOPER'S DESCRIPTION OF THE SORRY CURRENT STATE OF
THE WORLD ECONOMY, HIS IDENTIFICATION OF THE OPEC
SURPLUS AS THE PARAMOUNT IMMEDIATE PROBLEM,
AND THE DANGER OF PROTECTIONISM TEARING APART THE
INTERNATIONAL TRADE FRAMEWORK THAT HAS
SERVED JAPAN ABOVE ALL SO WELL. THE JAPANESE LIKEWISE RECOG-
NIZED THAT THE PRESENT IMBALANCE IN THE PATTERN OF
CURRENT ACCOUNT DEFICITS--ESPECIALLY THAT OF THE
U.S.-- IS UNSUSTAINABLE IN THE FACE OF PROTECTIONIST
PRESSURES ULTIMATELY ENGENDERED BY STUBBORNLY WEAK
GLOBAL DEMAND. BUT DESPITE OUR PERSISTENT, IF POLITE,
EXPRESSIONS OF DOUBT, AND ADMITTING THAT PREVIOUS
FORECASTS HAD BEEN VERY WIDE OF THE MARK, THE JAPANESE
(DEPUTY FOREIGN MINISTER YOSHINO AND EPA DIRECTOR
GENERAL FOR COORDINATION MIYAZAKI) STUCK TO HIS FORECAST
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THAT THE RECENTLY ANNOUNCED PACKAGE OF STIMULATIVE
MEASURES WILL REVERSE THE TREND IN JAPAN'S CURRENT
ACCOUNT AND HOLD THE SURPLUS TO DOLS 6.5 BILLION FOR
END OF THE CURRENT JAPANESE FISCAL YEAR (ENDING MARCH 31, 1978).

3. THE JAPANESE CALLED ON THE WEAKER ECONOMIES TO PLACE
THEIR OWN HOUSES IN ORDER AND ASSERTED THAT BY
STIMULATING JAPANESE DOMESTIC DEMAND WITHOUT IGNITING THE
FIRES OF INFLATION, JAPAN WOULD MAKE A MAJOR CONTRI-
BUTION TO WORLD RECOVERY. MIYAZAKI IDENTIFIED THE
LACK OF JAPANESE INVESTOR AND CONSUMER CONFIDENCE AS
THE TOUGHEST IMPEDIMENTS TO FULL RECOVERY. YET
FURTHER GOVERNMENT EXPENDITURES WOULD, HE ASSERTED,
RISK INFLATION.

4. MATSUKAWA (MOF) NOTED THAT THE RISE IN THE VALUE
OF THE YEN HAD BEGUN TO CUT INTO JAPAN'S EXPORTS
QUANTITIVELY BUT THAT A "J CURVE" EFFECT COULD BE
OBSERVED. MATSUKAWA DECLINED TO OFFER AN ESTIMATE
AS TO WHEN THE EXCHANGE RATE EFFECTS WOULD BEGIN
TO SHOW UP IN THE TRADE ACCOUNT, BUT ASSERTED THAT,
ON A YEN BASIS, THE ROLE OF EXPORTS IN RECOVERY HAD

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ALREADY BEGUN TO DIMINISH. RECOGNIZING THAT THERE HAD BEEN SOME REMARKABLY LARGE ERROS IN PREVIOUS FORE-CASTING, MIYAZAKI AND MATSUKAWA AGREED TO THE ESTABLISH-MENT OF AN INFORMAL JOINT WORKING GROUP ON THE TECHNICAL LEVEL TO MONITOR FORECASTS.

5. ASSUMING A CHARACTERISTICALLY AGGRESSIVE STANCE, MASUDA OF MITI ASSERTED THAT THE DRAMATIC RISE IN THE IMPORTATION OF OIL ACCOUNTS IN THE MAIN FOR THE U.S. CURRENT ACCOUNT DEFICIT AND THIS DEFICIT HAD IN TURN LED TO A WEAKENING OF CONFIDENCE IN THE DOLLAR. COOPER REPLIED THAT INCREASES IN U.S. ENERGY CONSUMPTION WERE BELOW HISTORICAL TRENDS, THAT IMPORTS REFLECTED THE DECLINE IN DOMESTIC OIL PRODUCTION AS WELL AS INCREASED
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CONSUMPTION AND THAT THE PRESIDENT'S ENERGY PACKAGE WILL ATTEMPT TO BRING IMPORT LEVELS DOWN TO 7.5 MILLION B/D BY 1985--BELOW EVEN CURRENT LEVELS. FURTHERMORE, INCREASES IN THE U.S. TRADE DEFICIT IN RECENT MONTHS WERE DUE TO THE FASTER PACE OF U.S. ECONOMIC RECOVERY AND TO CHANGES IN OUR TRADE PATTERNS WITH LDCS. BERGSTEN ALSO NOTED THAT ON A TRADE WEIGHTED BASIS THE DOLLAR HAD ACTUALLY STRENGTHENED IN LAST TWO YEARS.

6. IN RESPONSE TO BERGSTEN'S QUESTION ON OFFICIAL EXPORT FINANCING, THE JAPANESE DENIED THAT OFFICIAL EXPORT CREDIT WAS MAJOR FACTOR IN EXPANSION OF PLANT EXPORTS. NOTING THAT JAPANESE PLANT EXPORTS REMAIN FAR BEHIND THOSE OF THE U.S. AND WEST GERMANY, MATSUKAWA (MOF) ASSERTED THAT WHILE JAPANESE PLANT EXPORTS HAD RISEN 42 PERCENT IN LAST THREE YEARS, EXIM BANK FINANCING OF SUCH EXPORTS HAD ONLY CLIMBED 10.4 PERCENT. MATSUKAWA ALSO RESTATED THAT DESPITE RUMORS TO THE CONTRARY, JAPAN STILL ADHERES TO THE WASHINGTON AGREEMENT ON OFFICIAL EXPORT FINANCING.

NOTE BY OC/T: NOT PASSED OECD CAPITALS.

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ACTION EA-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-05 CEA-01 FEA-01 L-03 PRS-01 /099 W
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P R 160813Z SEP 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 1158
INFO USMISSION GENEVA
AMEMBASSY BANGKOK

C O N F I D E N T I A L SECTION 2 OF 2 TOKYO 14287

C O R R E C T E D C O P Y (BANGKOK ADDED AS INFO ADDEE)

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7. JAPAN'S IMPORT STRUCTURE WAS DEFENDED ON THE GROUNDS THAT (A) NO NEARBY INDUSTRIAL CENTERS EXIST IN ASIA; (B) THE HUGH JAPANESE DOMESTIC MARKET PERMITS ECONOMIES OF SCALE THAT ACCOUNT FOR JAPANESE COMPETITIVENESS BOTH AT HOME AND ABROAD; (C) THE JAPANESE DISTRIBUTION SYSTEM IS TOO COMPLICATED TO RATIONALIZE OVERNIGHT; AND (D) FOREIGN FIRMS HAVE NOT EXPENDED THE NECESSARY EFFORT, TIME AND RESOURCES TO CARRY OUT SUCCESSFUL MARKETING STRATEGIES. JAPANESE FURTHER ASSERTED VOLUME OF MANUFACTURED IMPORTS IS RISING, BUT NEVERTHELESS, AGREED TO OUR PROPOSAL TO ESTABLISH A JOINT STEERING COMMITTEE TO STUDY, INTER ALIA, WHERE IMPEDIMENTS EXIST TO THE IMPORTATION OF U.S. PRODUCTS AND HOW THEY MAY BE ELIMINA-TED, WHICH U.S. PRODUCTS MIGHT HAVE THE HIGHEST SALES
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POTENTIAL IN JAPAN AND HOW MITI MIGHT BE OF MORE ASSISTANCE TO U.S. EXPORTERS.

8. VIEWS ON NORTH-SOUTH PROBLEMS TENDED TO CONVERGE. THE JAPANESE REITERATED THEIR INTENTION TO "MORE THAN DOUBLE" ODA IN FIVE YEARS, BUT ADMITTED THAT THEY HAD YET TO DECIDE WHETHER IT WOULD BE ON AN ABSOLUTE OR PORTION OF GNP BASIS. THE JAPANESE QUESTIONED US CLOSELY ON OUR INTENTION TO EMPHASIZE AID FOR BASIC HUMAN NEEDS AND SUGGESTED THAT NOT TOO SHARP DISTINCTION NEED BE MADE BETWEEN AID TO

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INFRASTRUCTURE, WHERE THE JAPANESE PLAN TO LAY STRESS, AND AID FOR BASIC HUMAN NEEDS. THE JAPANESE ALSO REVEALED THEY ARE CONSIDERING AN "EQUIPMENT LOAN" CATEGORY TO FALL BETWEEN PROJECT AND COMMODITY ASSISTANCE.

9. THE JAPANESE EXPRESSED A DESIRE FOR A FOLLOW-ON FORUM TO CIEC LIMITED TO ENERGY IF POSSIBLE BUT POSSIBLY ENCOMPASSING OTHER TOPICS AS WELL. COOPER STATED THE U.S. IS RELAXED ON THIS ISSUE BUT WOULD BE HAPPY TO CONSIDER ANY SUGGESTIONS.

10. ON OUTSTANDING U.S.-JAPAN BILATERAL TRADE QUESTIONS SUCH AS SWEET CHERRIES, CITRUS, FROZEN JUICES, COMPUTERS AND PERIPHERALS, AND COLOR FILM, COOPER NOTED ON TWO OCCASIONS THAT WE ARE NOT UNCONCERNED AND WOULD CONTINUE TO WORK ON THOSE ISSUES, EVEN THOUGH THEY WERE NOT OUR PRIMARY REASON FOR COMING TO JAPAN.

11. WE AGREED TO HOLD ANOTHER SUBCABINET MEETING IN THE U.S. 6 TO 9 MONTHS HENCE.

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12. PRESS COVERAGE (SEE SEPTEL) WAS EXTENSIVE AND FAIR, HIGHLIGHTING OUR CALL TO BRING JAPAN'S CURRENT ACCOUNT INTO DEFICIT AT AN EARLY DATE. (IN JOINT PRESS CONFERENCE YOSHINO STATED THAT IN ACCORDANCE WITH JAPAN'S RESPONSIBILITIES AS STRONG ECONOMY, GOJ POLICY IS TO WORK TO BRING CURRENT ACCOUNT INTO DEFICIT BUT HE DOUBTED THIS GOAL COULD BE ACHIEVED SOON).

13. NOT CLEARED BY USDEL.
MANSFIELD

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Message Attributes

Automatic Decaptioning: X
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Disposition Approved on Date:
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Disposition Date: 22 May 2009
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Enclosure: n/a
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To: STATE
Type: TE
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